

E-017/M-91-457 ORDER APPROVING EVALUATION PLAN AND METHOD TO
CALCULATE LOST MARGINS AND BONUS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
Tom Burton
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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of Otter Tail
Power Company's Demand Side
Management Financial Incentive
Pilot Program Compliance Filing

ISSUE DATE: August 21, 1992

DOCKET NO. E-017/M-91-457

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PROCEDURAL HISTORY

On March 12, 1992, the Commission issued its ORDER ESTABLISHING DEMAND SIDE MANAGEMENT INCENTIVE PILOT PROJECT AND REQUIRING FURTHER FILINGS. In this Order, the Commission approved Otter Tail Power Company's (OTP's) demand side management (DSM) incentive pilot plan, as modified, and required the Company to file 1) a plan for measuring lost margins attributable to conservation and 2) a plan for evaluating the financial incentives pilot project within 45 days of the date of the Order.

On April 29, 1992, OTP filed the requested plans.

On May 27, 1992, the Minnesota Department of Public Service (the Department) and the Residential Utilities Division of the Office of the Attorney General (RUD-OAG) filed comments on the Company's April 29, 1992 filing.

On July 29, 1992, OTP filed response comments.

On August 6, 1992, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

In this Order the Commission considers 1) a plan for measuring OTP's lost margins attributable to conservation and 2) a plan for evaluating OTP's financial incentives pilot project.

A. Calculating Bonus and Measuring Lost Margins

In its March 25, 1992 Order in this matter, the Commission decided that it would serve the interests of administrative efficiency to examine lost margin calculations and bonuses in conjunction with the Company's annual Conservation Improvement Plan (CIP) evaluation filing. With that purpose in mind, the Commission established April 1 as the annual date for the Company to file its calculations of lost margins and applicable bonuses or penalties. Further, to avoid conflicts over how lost margins and bonuses would be calculated during that annual review the Commission began a process to clarify in advance how those calculations would be made. The Commission directed OTP to file a proposed method for calculating those items within 45 days of the Order.

1. Calculating the Bonus

OTP proposed a one-time bonus for each kWh saved, with the amount of the bonus to be determined along a sliding scale tied to the Company's success in meeting its CIP kWh saving goals. The Company would not begin to receive the bonus until it achieved at least 50 percent of its net avoided revenue requirements goal and would earn a bonus only on its direct impact programs. To estimate the kWh savings used in calculating the bonus, the Company proposed a variety of measuring devices, principally engineering estimates and typical end-use load shapes with annual energy consumption.

2. Calculating the Lost Margins

OTP proposed to calculate residential lost margins using a method recommended by the Department. OTP proposed to multiply the estimated lost kWh sales by a figure equal to the energy rate from residential and farm tariffs (without the fuel adjustment clause) minus the Company's base cost of fuel. Since OTP offers five residential and farm services, each with its own rate, a weighted average of the five margins will be used in the computation.

B. Evaluating OTP's DSM Financial Incentive Plan

OTP proposed two tests to determine the efficiency and cost-effectiveness of its DSM financial incentive pilot plan. Under OTP's net benefit test, the actual net avoided revenue requirement is divided by the total number of actual kWhs conserved during the year. OTP states that this test will show if more net benefits per kWh conserved are achieved over time. OTP's efficiency test would track productivity by determining the cost per kWh for conservation by dividing the total program costs by the total number of kWhs conserved during the current year.

C. Commission Action

The Commission has reviewed OTP's proposals in conjunction with the several modifications proposed by the Department and RUD-OAG. The Commission finds that the Company's plans will be improved by nearly all of those modifications and notes that OTP agreed with virtually all of those modifications. The Commission will approve OTP's plans as modified by all the modifications proposed by the Department and the RUD-OAG except for certain recommendations of the RUD-OAG for the use of weather-normalized data in connection with the Appliance Aid project, the Efficient Air Conditioner project, and the Small Commercial Tune-Up project. With respect to those projects, the Commission adopts modifications as detailed in the Ordering Paragraph 1, f.

ORDER

1. The plans proposed by Otter Tail Power Company (OTP) for calculating lost margins and the bonus and for evaluating its demand side management (DSM) financial incentive plan are hereby approved with the following modifications:
 - a. OTP shall include an analysis of actual expenditures versus budgeted expenditures and an analysis of program mix and customer satisfaction in its plan to evaluate its financial incentive;
 - b. OTP shall supplement its C&I, Efficient Air Conditioner Rebate and Lights 2000 project evaluations with additional survey or audits in a quantity determined by the Company;
 - c. OTP shall perform additional control group studies for two residential projects, House Therapy and Appliance Aid;
 - d. in computing the average revenue per kWh for C&I classes, OTP shall treat the customer charge as recommended by the Department

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- f. OTP shall use partially weather-normalized data to compute lost margins and use completely weather-normalized data to compute bonuses with respect to all its projects that use weather-sensitive data except in
- 1) the Appliance Aid Project;
 - 2) the Efficient Air Conditioner project provided that the Company evaluation takes into account weather sensitivity while still maintaining the evaluation on an efficiency per unit basis; and
 - 3) the Small Commercial Tune-Up project provided that OTP use weather normalized data in any future projects based on this pilot project.
2. OTP shall file evaluation plans for any additional 1992-93 projects upon approval of the projects by the Department.
3. OTP shall file the results of any large scale evaluations completed before April 1, 1993 or any changes to the evaluation plans currently on file in this docket.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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